

Message Text

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ACTION EB-08

INFO OCT-01 EA-10 NEA-10 IO-13 ISO-00 AGRE-00 CEA-01
CIAE-00 COME-00 DODE-00 FRB-03 H-01 INR-10 INT-05
L-03 LAB-04 NSAE-00 NSC-05 PA-01 CTME-00 AID-05
SS-15 STR-07 ITC-01 TRSE-00 USIA-06 SP-02 SOE-02
OMB-01 DOE-15 GSA-02 OIC-02 AF-10 ARA-10 EUR-12
/165 W

-----011086 281135Z /17

R 280925Z MAR 78
FM AMEMBASSY KUALA LUMPUR
TO SECSTATE WASHDC 3159
INFO USMISSION GENEVA
AMEMBASSY BANGKOK
AMEMBASSY JAKARTA
AMEMBASSY SINGAPORE
AMEMBASSY COLOMBO

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E.O. 11652: N/A
TAGS: ANRPC, ETRD, MY
SUBJ: NATURAL RUBBER PRICE STABILIZATION AGREEMENT

REF : (A) GENEVA 3286, (B) STATE 66431

1. ECON/COMMERCIAL COUNSELOR CALLED ON TAN SRI SEKHAR TO DISCUSS
THE FEBRUARY 27 - MARCH 1 UNCTAD SESSION AND THE APRIL 7-8 ANRPC
ASSEMBLY. SEKHAR SEEMED PLEASED WITH THE UNCTAD MEETING, AND
ESPECIALLY WITH THE U.S. DECISION TO NEGOTIATE A NATUREAL RUBBER
PRICE STABILIZATION AGREEMENT.

2. SEKHAR ASID THAT HE HAD BEEN THINKING ABOUT A REFERENCE
SYSTEM FOR DETERMINATION OF A FLOOR PRICE UNDER THE AGREEMENT.
HE THOUGHT IT MIGHT BE A GOOD IDEA TO LOOK AT CHANGES IN THE
PRICES OF PETROLEUM, TIRES, AND SBR, (SYRENE/BUTADIENE RUBBER)
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AND THEN DECIDE ON FLOOR AND CEILING PRICES UNDER THE AGREEMENT.
ECON. COUNSELOR RESPONDED THAT THIS WAS AN INTERESTING IDEA, BUT
HE DOUBTED THE U.S. WOULD BE WILLING TO TIE PRICES TO ANY
OTHER COMMODITY, AS THIS WOULD INTRODUCE AN ARGIFICIAL, NON-MARKET
FACTOR INTO THE PRICING. INSTEAD, HE THOUGHT THE U.S. WOULD WANT
TO SET PRICES UNDER THE AGREEMENT WITH REFERENCE TO ESTIMATED LONG
TERM MARKET PRICE, BASED ON PROJECTIONS OF SUPPLY AND DEMAND.

OTHERWISE THERE WOULD BE A DANGER OF CREATING SURPLUSES OR SHORTAGES BY ARTIFICIALLY ENCOURAGING OR DISCOURAGING PRODUCTION WITHOUT REGARD TO SUPPLY AND DEMAND CONDITIONS.

3. SEKHAR THEN SAID HE THOUGHT THE FLOOR PRICE SHOULD BE BASED ON THE COST OF PRODUCTION OF "A REASONABLY EFFICIENT PRODUCER." HE POINTED OUT THAT COSTS IN SRI LANKA WOULD NOW APPEAR QUITE LOW BECAUSE OF THE RECENT DEVALUATION. HE DESCRIBED HIS IDEA OF AN INNER PRICE BAND RANGING FROM M\$1.60 TO M\$2.00, AND AN OUTER BAND OF M\$1.40 TO M\$2.20 PER POUND, I.E. BETWEEN THE INNER AND OUTER LIMITS THE BUFFER STOCK MANAGER WOULD BE A NET BUYER OR A NET SELLER, BUT COULD BOTH BUY AND SELL. (HE ASKED NOT TO BE QUOTED ON THESE FIGURES.) HE SAID THAT HE WAS UNDER PRESSURE FROM THE TRADE IN MALAYSIA TO ASK FOR A WIDER BAND.

4. ECON. COUNSELOR EXPRESSED CONCERN OVER THE PROSPECTS OF A SHORTAGE OF NATURAL RUBBER IN THE 1980S. SEKHAR DID NOT SEE THIS AS A SERIOUS DANGER. HE SAID THAT SUBSTITUTES WOULD BE EMPLOYED AT SEVERAL STAGES IN THE EVENT OF A SHORTAGE. FURTHERMORE, HE THOUGHT THAT AN AGREEMENT COULD PROVIDE FOR "OTHER MEASURES," I.E. THE FINANCING OF PROJECTS TO INCREASE PRODUCTION. HE ALSO SAID THAT MOST RUBBER IS PRODUCED BY SMALLHOLDERS, AND THEY WOULD EXPAND PRODUCTION ONCE THEY WERE ASSURED OF REASONABLE PRICE STABILITY.

5. SEKHAR SAID THE GOM WAS WILLING TO AGREE THAT SUPPLY REACTION-LIMITED OFFICIAL USE

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ALIZATION MEASURES SHOULD BE INCLUDED IN THE AGREEMENT ONLY AS A MEASURE OF LAST RESORT. HE THOUGHT IT WOULD BE BETTER TO HAVE THE AGREEMENT SET PROCEDURES UNDER WHICH SUCH MEASURES COULD BE USED THAN TO BE SILENT ON THE SUBJECT. IN THE LATTER CASE, THERE WOULD BE A DANGER THAT PRODUCERS WOULD EMPLOY SUCH MEASURES ANYWAY, AND THERE WOULD BE NO GROUND RULES. HE SAID CONFIDENTIALLY THAT MALAYSIA WAS WILLING TO FORGET ABOUT SUPPLY RATIONALIZATION ALTOGETHER. THE PRESSURE CAME FROM INDONESIA AND SOME OF THE OTHER PRODUCERS WHO FIND IT EASIER POLITICALLY TO IMPOSE SUCH MEASURES THAN RAISE THE MONEY FOR A CONTRIBUTION TO AN ADEQUATE SIZE BUFFER STOCK.

6. SEKHAR THOUGHT THE PRODUCERS WOULD HAVE DIFFICULTY FINANCING A CONTRIBUTION OF A FULL 200,000 TONS TO THE BUFFER STOCK, (ASSUMING A BUFFER STOCK OF 400,000 TONS). HE SUGGESTED AN ARRANGEMENT THAT WOULD ALLOW THE PRODUCERS TO CONTRIBUTE INITIALLY 100,000 TONS AND THE CONSUMERS 200,000 TONS. THE PRODUCERS WOULD BE OBLIGATED TO COME UP WITH THE OTHER 100,000 TONS IF THE 300,000 TONS WERE EXHAUSTED.

9. SEKHAR REITERATED HIS HOPE THAT A MEETING AMONG PRODUCERS AND CONSUMERS COULD BE HELD IN KUALA LUMPUR. ECON. COUNSELOR

SAID HE UNDERSTOOD THAT THIS HAD BEEN AGREED TO IN GENEVA FOR MAY (AS STATED IN REF A PARAGRAPH 4).

8. COMMENT: IT WAS APPARENT FROM THIS DISCUSSION THAT, AS IN THE CASE OF TIN, THE GOM WAS PREPARED TO TAKE A MODERATE POSITION ON MOST OF THE ISSUES OF INTEREST TO THE U.S. MALAYSIA IS A RELATIVELY EFFICIENT, LOW COST PRODUCER, AND SEEMS WILLING TO AGREE TO OUR APPROACH TO PRICING AND RELIANCE ON A BUFFER STOCK MECHANISM, RESERVING SUPPLY RATIONALIZATION AS A MEANS OF LAST RESORT. WE HOPE ALL OF THESE FACTORS WILL ENABLE US TO AVOID THE SORT OF CONFRONTATIONS WE HAVE HAD IN THE ITC.

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